

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA LEGISLATURE AND THE COUNCIL ON THE MBOMBELA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the Mbombela Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mbombela Local Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

As disclosed in note 7 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 2010 in the financial statements of the Mbombela Local Municipality at, and for the year ended, 30 June 2009.

Irregular expenditure

As disclosed in note 41 to the financial statements, irregular expenditure of R39 857 538 was incurred due to deviations from supply chain management regulations and R113 642 754 due to the utilisation of conditional grants for other purposes than those for which they were intended.

Impairments

As disclosed in note 3 to the financial statements, there was a significant impairment of debtors amounting to R244 144 973, due to the poor collection of moneys owed to the municipality by consumers. The impairment constituted 83% of the total debtors of the municipality.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, and financial management (internal control)

Predetermined objectives

Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements

Reported information not consistent with planned indicators

The municipality did not report on its performance against predetermined indicators, which were consistent with the approved integrated development plan, for some of the objectives.

Inadequate contents of integrated development plan

Some of the key performance indicators set by the municipality did not include measurable performance targets as required in terms of section 46(1)(a)(i) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Have amounts, numbers and other data relating to the reported actual performance been recorded and reported appropriately?
- **Completeness:** Have all actual results and events that should have been recorded been included in the reported performance information?

The following audit finding relates to the above criteria:

No supporting source documentation

Sufficient appropriate audit evidence could not be obtained for any of the selected development priorities, objectives, key performance indicators and targets.

Compliance with laws and regulations**Municipal Finance Management Act****The mayor did not adhere to his legislative responsibilities**

- Contrary to section 53(1)(c) of the MFMA, the mayor did not ensure that the council approved the municipality's service delivery and budget implementation plan (SDBIP) within 28 days after the approval of the annual budget.
- Contrary to the requirements of section 127(2) of the MFMA, the mayor did not table the annual report of the municipality for the 2008-09 financial year by 31 January 2010.

The accounting officer did not adhere to her statutory responsibilities

- Contrary to the requirements of section 69(3)(a) of the MFMA, the accounting officer did not submit the draft SDBIP to the mayor within 14 days of the approval of the budget.
- Contrary to the requirements of section 32(4) of the MFMA, the accounting officer did not inform the mayor, the MEC for Cooperative Governance and Traditional Affairs in the province and the Auditor-General in writing about unauthorised and irregular expenditure incurred by the municipality, and did not take any measures to recover such expenditure.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

Irregular expenditure was incurred in contravention of the requirement of the MFMA, and was not condoned by the National Treasury.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and compliance with laws and regulations.

Leadership

Oversight responsibility

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Financial and performance management

Quality, reliable monthly financial statements and management information

- The financial statements were subject to material amendments resulting from the audit. This indicates that proper review and monitoring processes were not followed.
- The municipality did not have competent individuals who understood the performance management requirements.

Proper record keeping and record management

Performance information was not properly kept and safeguarded to be made available when needed.


Nelspruit

29 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence